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Friedman would take Fed job

But Paul Volcker's got it and shows no intention of resigning

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SAN FRANCISCO – Chairman of the Federal Reserve Board is the one job Nobel Prize-winning economist Milton Friedman would seriously consider taking.

Friedman hasn't been offered the position, yet. Paul Volcker still holds it and shows no signs of resigning.

However, William Casey, who was chairman of the Reagan Administration selection committee, told The Globe last fall that Friedman would be his choice to succeed Volcker if Volcker resigned. "That would be a great way to signal the world what we're about," the present CIA director said then.

Friedman, the 68-year-old economist who has been a vociferous critic of the Fed, said on Monday, "I have no false modesty. I don't know what I'd do. It's the only job I'd have to think deeply about. If I said no, then I'd have to shut up about monetary policy. That would be a very high price to pay."

Friedman, whose latest book, "Free to Choose," is on the best-seller list, was brutally critical about the Federal Reserve's policies under Volcker during an hour-long interview at San Francisco's Mark Hopkins Hotel. "I want him to put up or shut up. He talks about a stable money policy. But his record shows fluctuations more erratic than any comparable time before. I am baffled," said Friedman.

He points out that the February to May, 1980, period showed "an unprecedented decline in money supply." This was followed by a complete turn-around, May through October 1980 when "the rate of increase was greater than in any other five-month period."

The diminutive Friedman's conclusion: If the Fed doesn't get turned around, inflation will move up to a 25 percent rate sometime in the next few years, despite the Reagan economic policy of budget cuts and less taxes.

Friedman would overhaul Fed policy if he were chairman. Here is his prescription for success in controlling the money supply.

First, he would make banks figure their reserves on current deposit level. Since banks reserve money based on deposits held two weeks ago, Friedman charges this "means the money supply this week is out of control." Friedman maintains that Volcker abstained from a tie vote of the Fed Board last September to make this important change in policy.

Second, Friedman would establish the Fed's discount rate, the charge made for money lent to member banks, at an automatic penalty rate of the current Treasury bill rate plus three percent. This would raise the cost of borrowing from the Fed above the market.

The economist, who now teaches at the Hoover Institution on War, Revolution and Peace on Stanford University's campus, claims the present Fed Board won't raise the discount rate permanently "because they don't want to give up their power. Government bureaucracies, even that small, don't voluntarily give up power."

Third, Friedman would appease the large banks by paying them the present Treasury bill rate on their excess reserves. This would give them an extra income on the money they don't lend out.

Fourth, he would pick a single measure of

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